D DOCUMENTS CROSS-REFERENCED
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Executive Secretary

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THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 8/19/85 **Number:** -------------- **Due By:**

Subject: Economic Policy Council Minutes - July 23, 1985

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☐	☑
State	☐	☑
Treasury	☐	☑
Defense	☐	☐
Justice	☐	☑
Interior	☐	☐
Agriculture	☐	☑
Commerce	☐	☑
Labor	☐	☑
HHS	☐	☐
HUD	☐	☑
Transportation	☐	☑
Energy	☐	☑
Chief of Staff	☐	☑
Education	☐	☐
OMB	☐	☑
CIA	☐	☑
UN	☐	☐
USTR	☐	☑
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☐	☑
CEQ	☐	☐
OSTP	☐	☐
McFarlane	☐	☑
Svahn	☐	☑
Chew *(For WH Staffing)*	☑	☐
Hicks	☐	☑
Executive Secretary for:		
DPC	☐	☐
EPC	☐	☑

REMARKS:

Attached for your information are the minutes of the July 23 meeting of the Economic Policy Council.

RETURN TO:

☑ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Rick Davis
☐ Ed Stucky

Associate Director
...inet Affairs
456-2800 (Room 129, OEOB)

DCI EXEC REG

L-3008

MINUTES
ECONOMIC POLICY COUNCIL

July 23, 1985
11:30 a.m.
Roosevelt Room

Attendees: Messrs. Baker, Block, Baldrige, Brock, Yeutter, Sprinkel, Whitehead, Darman, Verstandig, Boggs, Friedersdorf, Kingon, McFarlane, Rollins, Svahn, Porter, Brashear, Khedouri, Li, Low, Oglesby, Robinson, Smart, Smith, and Stucky, Ms. Chavez and Ms. Eickhoff.

1. Section 201 Nonrubber Footwear Case

Ambassador Yeutter presented the background of the Section 201 footwear case and the range of viable options. The footwear industry has filed a number of petitions since the Trade Act of 1974. President Carter granted the industry relief in the form of Orderly Marketing Agreements (OMAs) with South Korea and Taiwan that were in effect from 1977 to 1981. In 1981, President Reagan allowed the OMAs to expire.

After the U.S. International Trade Commission (ITC) in 1984 made a negative injury finding in a petition filed by the industry, the Congress amended the Section 201 criteria. After the industry again filed a Section 201 petition earlier this year, the ITC made an affirmative injury finding and recommended to the President that he impose global quotas for five years.

The import penetration ratio in the footwear market has climbed significantly. In 1976, it was about 47 percent, and rose to 58 percent in 1982, 64 percent in 1983, 71 percent in 1984, and a 77 percent annual rate so far in 1985. Domestic consumption was about 1 billion pairs last year, of which about 700 million was imported.

Roughly ten states account for the bulk of footwear production. About 27,000 workers are unemployed in the footwear industry, which is experiencing approximately a 17 percent unemployment rate. Labor costs have risen recently, exacerbating the already large differences in wages between U.S. and foreign producers.

Capital expenditures increased during the period of OMAs and declined after 1982. It is difficult, though, to determine whether other factors were more important in explaining this pattern of investment, for example, the effect of the 1981-1982 recession on capital investment.

The domestic industry has a relatively small number of firms. There are about 250 firms with 10 or more employees, of which about 20 key firms account for roughly half of production. About one-third of all the firms are highly competitive. This segment of the industry could survive without import relief in large part because it has already carved out market niches.

Given the injury finding by the ITC, the President must provide relief to the domestic footwear industry unless he determines it is not in the national economic interest. The President is required to consider nine statutory criteria, of which the five most important are:

1. Whether import relief would promote adjustment in the domestic industry;

2. The effect of relief on consumers;

3. The economic and social costs to taxpayers, communities, and workers if relief were or were not granted;

4. The effect of relief on the international economic interests of the U.S.; and

5. The effect of relief on the U.S. trading relationship with other countries, primarily through compensation and retaliation.

Ambassador Yeutter presented four options. The first option would provide for no relief other than adjustment assistance. It would impose no consumer costs and not hurt our trading partners.

The second option would accept the ITC remedy recommendation of reducing imports from roughly 71 percent to 61 percent of consumption. The domestic industry prefers quotas that are more restrictive than the ITC recommendation. The ITC recommendation includes an exclusion of imports at $2.50 customs value or less.

This option would result in some adjustment by the domestic industry and impose high consumer costs. The Administration opposes quotas in principle and would also not collect any revenues from a quota without an auction system for import licenses.

Under the third option, import relief would be provided by raising tariffs from the current average level of about 9 percent to 12-25 percent over the five-year relief period. It would exclude imports at $4.00 customs value or lower. Import penetration would decline initially to 62 percent and end at around 71 percent.

The effect of a tariff on import penetration would be less certain than under a quota. The third option would generate the highest revenues for the Federal Government of any option, about $200-214 million annually, and produce the largest employment increase, an estimated 25,000 jobs.

The fourth option is the most liberal tariff option. Import penetration would decline initially to 65 percent and end at around 71 percent. It would exclude imports at $4.00 customs value or lower.

Ambassador Yeutter expressed his belief that foreign producers would generally absorb the tariff so that the import penetration level would probably be higher. There would be less adjustment by the domestic industry and consumer costs would be significantly less than those in Option 2. Our trading partners would almost certainly prefer this option to the other two relief options and Ambassador Yeutter expressed his view that our trading partners would likely not seek compensation if Option 4 were approved.

Ambassador Yeutter noted that the footwear import relief case has attracted a great deal of interest in the Congress. Senator Packwood and more than a dozen other Senators are sending a letter opposing relief, while Senator Danforth is sending a letter with 36 signatures supporting relief.

The Council's discussion of the economic factors in the footwear case focused on the diversification and structure of the domestic industry, the likely impact of relief on foreign producers, and the extent to which foreign producers would absorb a tariff.

Many major domestic producers have become significant importers as well. Council members generally agreed that failing to provide relief would not adversely affect national security.

Council members discussed the likely impact of relief on the major exporters of footwear to the U.S.: Taiwan, South Korea, Brazil, Italy, and Spain. Footwear exports account for about 12 percent of Brazil's export earnings. Given the recent political transition in Brazil and its debt service requirements, the decision will have a major import on Brazil. Council members noted that a low cost exclusion of imports would have little effect on Brazil.

Several Council members questioned the extent to which foreign producers would absorb a tariff and the impact that absorbing the tariff would have on import penetration levels throughout the period of relief.

The Council agreed that there was no compelling economic case for granting relief.

The Council also discussed two major political risks if relief is not provided to the domestic footwear industry:

1. The Congress may seek legislation reducing or eliminating presidential discretion in Section 201 cases; and

2. Support for legislation protecting other domestic industries may increase.

Some members of Congress have indicated they would view refusal by the President to provide relief to the footwear industry as justification for removing or significantly reducing presidential discretion in Section 201 cases.

The Council discussed the probability that the Administration could successfully oppose legislation eliminating presidential discretion in Section 201 cases.

If the President rejects the footwear petition, support for protectionist legislation for the domestic textile and lumber industries may increase. The Council noted that while providing relief to the footwear industry could reduce the pressures for relief to other domestic industries, it could also encourage other industries to press harder for relief using the rationale that they deserve relief as much as the footwear industry.

The Council discussed the relationship between congressional support for footwear and textile import restrictions and whether rejecting relief for the footwear petition would increase the number of congressmen supporting textile quota legislation or simply increase the intensity of concern by congressmen already supporting textile quota legislation.

Some Council members suggested that the political costs of rejecting the footwear petition could be minimized if addressed within the context of the Administration rearticulating its overall trade policy.

The Council also discussed the impact that providing relief to the domestic footwear industry would have on the Administration's efforts to roll back protectionism abroad. Some noted that providing relief would undercut our efforts to encourage other countries to support a new multilateral trade round.

Secretary Baker requested that Mr. Friedersdorf conduct a detailed analysis of the congressional support for footwear and textile import legislation. The Council agreed that Mr. Friedersdorf and Mr. Oglesby would serve as the Administration's communication channel to the members of Congress on this issue.

The Council agreed to consider this agenda item at a future meeting.

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Date

Remarks

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Executive Secretary
22 Jul 85
Date

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THE WHITE HOUSE
WASHINGTON

July 19, 1985

NOTE FOR WILLIAM J. CASEY

FROM: ROGER B. PORTER RBP

The agenda and papers for the July 23 Meeting of the Economic Policy Council are attached.

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THE WHITE HOUSE

WASHINGTON

July 19, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER RBP

SUBJECT: Agenda and Paper for the July 23 Meeting

The agenda and paper for the July 23 meeting of the Economic Policy Council are attached. The meeting is scheduled for 11:30 a.m. in the Roosevelt Room.

The Council will consider the Administration's overall trade policy strategy. The Office of the U.S. Trade Representative and the Department of Commerce have prepared a paper entitled "International Trade and Economic Policy Initiative" to serve as a starting point for the discussion. A copy is attached.

Attachment

L-300B

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

July 23, 1985

11:30 a.m.

The Roosevelt Room

AGENDA

1. Trade Policy Strategy

Trade Policy

The Administration enunciated its basic trade policy in its July 8, 1981 statement. We reaffirm our commitment to free and fair trade, based on comparative advantage and open markets, as the best way to ensure efficient allocation of the world's supply of material and human resources.

Because free and fair trade benefits America so greatly, we reject a policy of protectionism. Protectionism would stimulate inflation, encourage inefficient production methods, lower productivity, raise production costs for industries competing in overseas markets, shrink markets abroad for U.S. products (as foreign countries lose income from sales to the United States), invite retaliation against U.S. exports, cost U.S. jobs and generally lower our standard of living.

Protectionist policies lack any merit for an economy in which international trade plays an increasingly important role.

At the same time, we recognize that present trading conditions are in many respects neither free nor fair, and that the U.S. cannot unilaterally make them so. We must live and manage in the world as it is while we try to improve it.

Our trade policy must therefore combine concerted efforts with our trading partners to attain fair competitive conditions in the world trading community over the next few years with a willingness to take short-term steps, as necessary, to ensure fair competitive conditions for U.S. producers now.

Proposed Action Program

The elements of an action program to implement our updated trade policy should include the following:

1. Ensure Fair Trade

Since free trade is unacceptable if the terms are unfair, we will continue and accelerate our efforts to ensure that our trading partners play by agreed rules. We will:

-- Continue to aggressively enforce our trade laws and agreements. (Recent examples: retaliation on citrus under Section 301, near-record number of AD/CVD cases.) In addition, we will take retaliatory action under Section 301 where national trade policy interest dictates.

-- Act to equalize market opportunities. Use the expanded authority of the Trade and Tariff Act of 1984 to limit our trading partners' unrestricted access to the

INTERNATIONAL TRADE AND ECONOMIC POLICY INITIATIVE

Recommendation

The Administration must promptly take the initiative by announcing and acting on a coordinated international trade and economic policy. The policy must combine steps to create fair trading conditions over the next few years with immediate (and largely temporary) steps to preserve U.S. competitiveness now. It should be announced in a Presidential address following EPC review.

Background

U.S. economic activities are becoming more integrated with those of the global economy. In 1985, U.S. exports and imports of goods and services amount to 21 percent of our gross national product. This compares to 13 percent in 1970 and only 9 percent in 1950.

This trend toward a greater role for international trade in our economy is irreversible.

Our dependence on foreign markets for our products, and the challenge of foreign competition in our domestic market, make it imperative that we continue to foster a strong and internationally competitive economy and a more open global system for international trade and capital flows.

Our recent and prospective trade deficits of as much as $150 billion dollars is unsustainable. In the starkest terms it means we are consuming more than we produce, and paying for it by mortgaging our future, surrendering ownership of our nation's productive assets, and transferring U.S. jobs abroad. In doing so we have this year crossed over from creditor to debtor nation status for the first time in over 70 years.

U.S. trade policy must be based on a realistic appraisal of the position of the United States in the world economy. Clearly the nation remains strong and vibrant, the economic leader of the free world with political and military leadership based on that strength. No other country can replace us in this role.

On the other hand, the unnatural world preeminence of almost all U.S. industries that characterized the 1950's and 1960's has diminished, as we have used our economic resources and huge market to help the industrialized free world and emerging nations reach for and gain economic self-reliance.

These nations now must join the United States in world economic statesmanship, by relinquishing some share of one-way dependence on the benefits of open U.S. markets, and by adopting policies that aid less-developed countries as they too seek a place in the economic sunlight.

U.S. market until we have satisfactory access to theirs.

-- Support the market-opening objectives of equitable access legislation, e.g., those in the Danforth telecommunications bill. Work with the Congress on specific provisions.

-- Counter proven cases of unfair foreign industrial targeting.

-- Increase efforts to protect intellectual and industrial property rights.

-- Selectively match our competitors' assistance to exports, while pressing for international agreement eliminating subsidized export financing.

  - Agriculture: continue to subsidize agricultural exports to counter foreign subsidies that are eroding our traditional markets.

  - Eximbank: seek funding to match foreign grants of mixed credits outside the OECD consensus.

2. Promote U.S. Exports

Government should assist exports by creating a climate in which U.S. industry can make the most of its potential competitive strength. We should:

-- Urge U.S. companies to view themselves as competitors in a world market.

-- Intensify the federal government's export promotion activities.

-- Take advantage of President's Export Council and the ISAC's as a vehicle to communicate with and encourage U.S. industries with unrealized export potential.

The world requires a comprehensive, fair, and disciplined trading system on which economic planning of participants can be based. We should begin the new GATT round, emphasizing agenda items such as:

-- Dispute settlement

-- Agricultural and other subsidies

-- Elimination of NTBs

-- Specific high-tech problems

-- Intellectual property protection and the counterfeiting code

-- Safeguards

-- Trade-distorting investment practices

To bridge the time until a new multilateral trading system can be in place we should, within the existing GATT framework, consider bilateral, regional, and plurilateral agreements that can advance free and fair trade, and stimulate non-participants to join in the multilateral process.

We will avoid actions that invite foreign foreign counter-measures that further impede U.S. exports.

3. Manage Exceptions to Free Trade Wisely

It is recognized internationally that nations may find it necessary to take actions that do not conform to free trade principles. When such steps are necessary to protect U.S. interests we will:

-- Provide temporary relief from import injury for U.S. industries that can be competitive under fair conditions and that are restructuring, if necessary, to enhance competitiveness.

-- Avoid protection of industries that would not be competitive even under fair conditions.

-- Work with labor and industry to enhance worker retraining and movement into competitive industries.

-- Respond to foreign policies that threaten industries that are essential to our long-term national security and international competitiveness.

-- Vigorously enforce our export control laws to prevent the leakage of sensitive and critical technology of military significance to potential enemies. In doing so, recognize the realities of foreign availability and the dependence of future technical advances on healthy, creative U.S. suppliers and free world interchange of scientific information.

4. Pursue Trade-Supporting Fiscal, Monetary and Regulatory Policies

We must address the strength of the dollar and other macro-economic and regulatory contributors to our trade deficit. To do so we should:

-- Work with Congress for effective budget expenditure and deficit reduction.

-- Encourage our trade partners to pursue appropriate policies to accelerate their economic growth in order to contribute to a gradual weakening of the dollar and enhanced U.S. exports.

-- Organize an international monetary meeting to follow up on the G-10 report on international monetary reform and exchange rates.

-- Seek prompt and substantial moves by Japan to increase imports and to internationalize the yen.

-- Work with industrialized countries and multilateral institutions to ease the debt burdens of developing countries and ensure their access to export markets.

-- Support tax policies that enhance U.S. industrial competitiveness.

-- Review and, where appropriate, amend antitrust laws and regulations that impede international competitiveness of U.S. industries.

-- Take steps to see their recent deregulation of U.S. firms does not put them or their suppliers at a competitive disadvantage by permitting uneven access for foreign companies.

-- Look at all present and proposed government actions and policies in light of their effect on the international competitiveness of U.S. industry.

July 18, 1985
Department of Commerce
U.S. Trade Representative